
THE EVOLUTION OF FDI IN ROMANIA DURING THE PERIOD 1990-2009

Danciu Aniela Raluca,
Gruiescu Mihaela*

Abstract

FDI is a key factor for economic modernization through changes in production patterns, technology transfer and greater competition pressures. In the latest years, Romania has benefited from important FDI flows, mainly due to the privatization process, but also due to the advantages of cheap labor force and a big internal market. From the beginning of the transition period, Romania went through a rapid opening-up process of its economy, which has resulted, among others, in attracting significant foreign direct investment (FDI). The presence of foreign firms has grown significantly, which is a sign of increasing economic integration.

In this paper we shall make an analysis of the FDI evolution in Romania using the data provided by the National Trade Register Office of Romania for the period 1990-2009 and National Institute of Statistics.

Keywords: economic development regions, regional disparities, foreign direct investments.

JEL Classification: O1, R12

1. Evolution of foreign direct investments in Romania from the beginning of the transition period

For a post-communist country, Romania has made significant progress in attracting foreign direct investment, taking into account the fact that foreign direct investment is impetuous required in order to straighten up the "significant gap with industrialized countries (Negritoiu, 1996).

After the change of its political and economic system in 1989, Romania opened its market to foreign investment. However, for most of the 1990s annual foreign direct investment flows remained rather modest. They started to increase significantly only after 2003.

Regarding the evolution of FDI in Romania during 1991-2009 we can distinguish three main period: the first period is between 1991 and 1997, the second period is between 1998 and 2003 and the third period is between 2003 and 2008

* Aniela Raluca Danciu is Professor of Statistics at the Academy of Economic Studies Bucharest, E-mail: anielaco@hotmail.com;

Mihaela Gruiescu is Professor of Statistics at the Romanian American University in Bucharest, E-mail: mgruiescu@yahoo.com;

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Dimension and evolution of FDI are presented in the following table and graph:

Table 1: Evolution of FDI attracted by Romania and number of commercial companies with foreign participation to social capital during 1991-1997

Year	1991	1992	1993	1994	1995	1996	1997
FDI (thousand dollars)	1058260.8	573271.2	417844.8	881673.3	237717.0	573594.2	359912.8
Number	5499	11765	10583	11053	3400	3630	5251

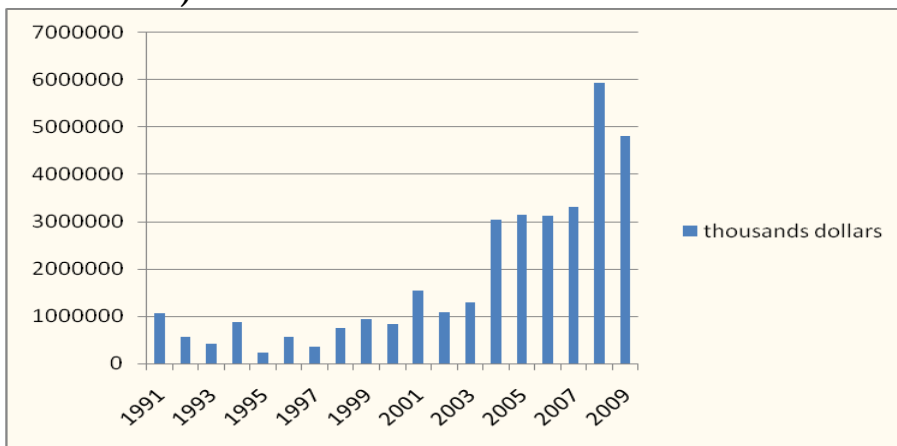
Table 2: Evolution of FDI attracted by Romania and number of commercial companies with foreign participation to social capital during 1998-2002

Year	1998	1999	2000	2001	2002
FDI (thousand dollars)	755475.3	944365.3	839143.8	1540810.8	1078746.2
Number	8801	7383	8567	7175	7518

Table 3: Evolution of FDI attracted by Romania and number of commercial companies with foreign participation to social capital during 2003-2009

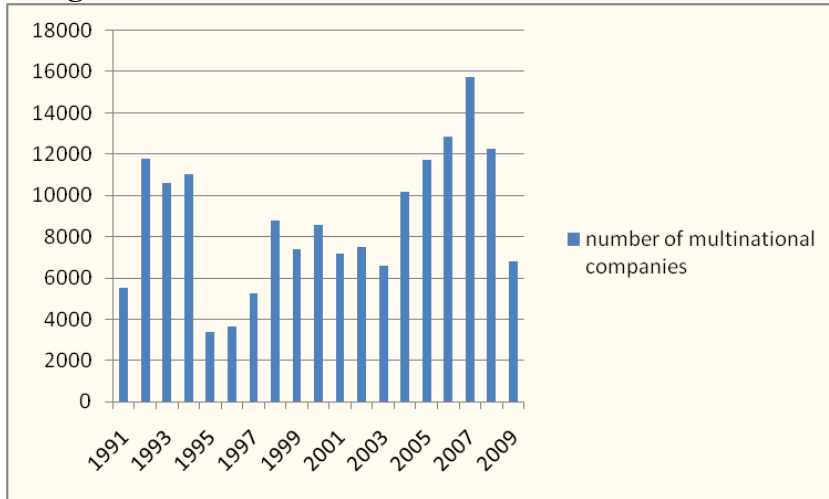
Year	2003	2004	2005	2006	2007	2008	2009
FDI (thousand dollars)	1288885.0	3032218.4	3149681.6	3127314.6	3314201.6	5924852.8	4817293.2
Number	6609	10167	11719	12823	15720	12264	6801

Graph 1: Evolution of FDI attracted by Romania during 1991-2009 (thousand dollars)



Source of data: http://www.onrc.ro/statistici/sr_2010_09.pdf

Graph 2: Evolution of the number of multinational companies in Romania during 1991-2009



The graphs presented above clearly show a very low amount of FDI during the first period, namely between 1991 and 1997. This happened because the economic reform, including the privatization of the state sector, started later than in the other CEECs and has progressed slowly and hesitatingly. The specificity of the privatization process (mass privatization) was not favorable to FDI participation, and there was no strategy towards attracting FDI; on the contrary, the slogan was ‘we do not sell our country’. Mainly trial investment entered the country. We may say that at that time, Romania missed the initially favorable conditions due to the lack of political will to reform the economy.

Starting with 1998, the situation has changed and the stock of FDI started to ascend, even though evolution was a fluctuating one. Large scale privatizations and positive changes in the business climate were among the determinants of this new evolution trend. Certainly, the progress in fulfilling the criteria of adhesion to the EU has substantially contributed to the increase of the investors’ confidence. We may even notice several peak years of FDI amount, which are related to the privatization of several huge state owned companies. Until the end of 2003, the Romanian Government has privatized most of the sectors of economy. The largest privatizations deals yet concluded: Romanian Developed Bank (sold to Societe Generale), Dacia car manufacturer (sold to Renault), Sidex (sold to LNM Ispat in 2000) and Agricultural Bank (sold to Raiffeisen Bank in 2001). In 2003 the Privatization Authority (APAPS) finalized 309 sale-purchased contracts, bringing almost USD 300 millions to the state budget.

An accelerated growth during the period 2003-2008 has placed Romania among attractive FDI destinations as a consequence of proximity of accession and the improvement of country’s rating and economic performance.

The amount of foreign direct investments is dependent also upon the privatization strategy adopted by the government during the period 2003-2008.. The important privatization in this period are: Petrom (OMV acquired 33% in 2004), Electrica Banat and Electrica Dobrogea (Italian company Enel acquired in 2004), Romanian Commercial Bank (Erste acquired in 2005).

In 2006, Romania was located in the third place among the New Member States (NMS), after Hungary and Poland, in total value of FDI stock. In 2007, Romania's FDI flows decreased, as a consequence of the finalization of the privatization process. EU enlargement has contributed significantly to raising Romania's attractiveness for foreign investments. Romania has conformed to European regulations, shows records of economic growth and has a market economy status. The transition towards ERM II has created institutional instruments for a controlled inflation and computational pressures have strengthened monetary discipline.

Consequently, the investors' interest in Romania has increased steadily in this period. Cheap and skilled workforce, low taxes, improving the business environment, the positive attitude of foreign partners and favorable geographical location are the main advantages of Romania for foreign investors. Thereby, as can be seen above, Romania has registered an upward trend in attracting foreign direct investment. In 2008, Romania attracted investments worth dollars 5924.8 billion placing her an enviable position on the statistics that analyzes foreign direct investment flows in South Eastern Europe.

As expected, the economic crisis has affected the amount of FDI attracted by Romania, in 2009 recorded a drop regard previous year, leading to the 4817.2 billion dollars.

2. Economic Development Regions in Romania

After 1990, Romania shifted its spatial policy from a central-based policy to a regional-based policy, in compliance with EU-standards. According to four criteria (number of inhabitants, surface, cultural identity and functional-spatial relations;) Romania was divided 1998 into eight Development Regions. The eight regions serve as NUTS-II units and as a framework for development policies while the counties serve as NUTS-III units. The NUTS-II units are: **North-East development region** (Bacau County, Botosani County, Iasi County, Neamt County, Suceava County, Vaslui County), **South-East development region** (Braila County, Buzau County, Constanta County, Galati County, Tulcea County, Vrancea County), **South development region** (Arges County, Calarasi County, Dambovita County, Giurgiu County, Ialomita County, Prahova County, Teleorman County), **South-West development region** (Dolj County, Gorj County, Mehedinti County, Olt County, Valcea County), **West development region** (Arad County, Caras Severin County, Hunedoara County, Timis County), **North-West development region** (Bihor County, Bistrita County, Cluj County, Maramures County, Satu Mare County, Salaj County), **Center development region** (Alba County, Brasov County, Covasna County, Harghita County, Mures County, Sibiu County), **Bucharest-Ilfov development region** (Ilfov County, Bucharest).

3. The analyze of the distribution of foreign direct investments on economic development regions

A regional analysis in Romania shows major differences at all levels and in many fields. Among the eight Romanian economic development regions, there are a few which have closer indicators with the level of other countries in EU (especially among New Member States), but still many other far from the requirements of an EU member.

The territorial repartition of the FDI for all activity sectors of the economy puts into evidence some of the trends manifested by the investors in 90s. As result, there are emerging centers of concentration for the foreign investors in those geographical areas and historical provinces with a rich economic and infrastructure potential or with historical traditions in certain activity branches.

Table 4 - FDI in Romania by economic development regions (1990-2009)

Development regions	Investors		Capital		Rural population	Regional population
	Number	%	Mil. \$	%	%	%
Northeast	7281	4.4	1743919.6	5.1	59.5	17.1
Southeast	9653	5.8	2092494.9	6.2	44.8	13.2
South	7713	4.6	2454882.7	7.2	59.5	15.6
Southwest	4441	2.7	1302562.8	3.8	55.8	10.8
West	18665	11.2	2498239.2	7.4	38.4	8.9
Northwest	18617	11.2	2244324.2	6.6	49.9	12.6
Center	17041	10.2	2764922.9	8.2	41.5	11.6
Bucharest-Ilfov	83317	50	18813916.5	55.5	11.3	10.2
Total	166728	100	33915262.8	100	46.7	100

Source: http://www.onrc.ro/statistici/is_septembrie_2010.pdf, www.insse.ro

When we analyze the distribution of the foreign investors taking into consideration the number of the commercial companies (Table 1), we can see that about half (50%) have been founded in Bucharest, which anyhow has the supremacy regarding the value of the invested capital, with almost 55,5%. The second group of regions, on the subsequent place is: the West Region, Northwest Region and Center Region (between 9-12%). The fewest commercial companies were founded in Southwest Region (only 2.7%). If we have in view the value of the investments, after Bucharest is following the Center Region, West Region and South Region. These for regions gather almost 80% of the total FDI in Romania. On the last place is the Southwest Region.

Following these two criteria, we can conclude that the Bucharest Region is concentrating the greatest part of the foreign investments in Romania, the rest (50%) being shared by the other seven regions of economic development, existing a great economic imbalance manifested in all domains of activity. The least attractive region for the foreign investors is Southwest, which is on the last position in function of both criteria. It is in fact one of the poorest regions in Romania, together with the

Northeast Region, with a rural majority and a strong agrarian character (almost 60% from the population is rural). Both regions have 28% from the Romanian population but they cumulate only 4.7% from the total FDI. An exception is the South Region, which has a rural character, over 15% from the Romanian population but high level of investments.

Two important conclusions could be derived from these findings. Firstly, physical and cultural distance remain important in influencing the geographical dynamics of foreign direct investments. Secondly, these regions that were already more developed have attracted more foreign direct investments and more investors. This had contributed significantly to the widening development gap between regions.

Generally, the foreign investors avoided the poorest regions in Romania, the rural environment, preferring the towns or the adjacent areas. The regional distribution of the FDI in Romania is characterized by great inequalities, the one between the Bucharest Region and the other regions being most obvious and the second between rural and urban area.

Conclusion

At the regions level, there are disparities determined by heterogeneous development areas, due to small, mono-industrial towns, strongly affected by the restructuring, reduced economical diversification of some big cities and due to the incapacity of some urban centers of becoming development vectors for adjacent areas. The under-developed regions are those dependant on agriculture, with great rural population where trans-border transport, is little developed, comparing to those in the opposed corner, whose dependence on the primary sector is reduced.

The evolution of foreign direct investment at the regional level had the same trend as the evolution of foreign direct investment in Romania. In recent years there has been registered an upward trend of investment flows to Romania, especially in the followings regions: Bucharest-Ilfov, Center Region, West Region and South Region, which may mean that our country is on up track. Of course, the effects of recession have had an impact on foreign investments, they are decreasing by nearly half compared to the so-called boom that Romania is the record of 2007 and 2008.

An extremely important role in eliminating intra and inter-regional disparities is the help Romania shall receive from the European Community. For the operational programs that benefit from European cofinancing, for the timeframe 2007-2013, Romania shall receive 17,264 Millions Euro from Structural and Cohesion Funds of the European Union. From this amount, 3,275 Millions Euro shall be allocated to the Regional Operational Program destined for the FEDR development, that shall support the financing from national public funds of 549,04 Millions of Euro and national private funds of 28,90 Millions of Euro.

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